Delivering the future

GUERNSEY POST

Corporate details

Directors:
Dudley R Jehan (Chairman)
Boley Smillie (Chief Executive)
Richard J Hemans (Finance)
Andrew Duquemin (Non-Executive)
Stuart Le Maitre (Non-Executive)
Simon Milsted (Non-Executive)
Steve Hannon (Non-Executive)

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Contents

GUERNSEY POST

The mails industry has evolved into an extremely challenging environment for Postal operators all over the world

Chairman's Statement

The mails industry has evolved into an extremely challenging environment for postal operators all over the world. In every jurisdiction postal companies are coming to terms with the effects of a global recession and even more significantly the devastating momentum of digital substitution. In this regard the Bailiwick is certainly no exception. Our core business is under significant pressure, revenues are in decline and bulk mail volumes have fallen for the first time in more than 20 years.

A key challenge for Guernsey Post remains its ability to fund the Universal Service Obligation (USO). We believe the USO is very much aligned to the fabric of our community covering the frequency of deliveries, our network of outlets and the price and range of the postal products that we provide. The Board has rejected the approach taken by many other jurisdictions around the world where it is commonplace to rely on government subsidies and instead is taking steps to create a sustainable future for the business. However, the solution to the USO dilemma is only partly under the Board's control and is reliant on a variety of measures. The liberalisation of the Guernsey postal market has to stop, the scope of the USO has to be aligned with the modern requirements of our customers and we must deliver on our unprecedented cost reduction programme.

The early progress we have made in transforming the business and reducing our cost base is significant, the benefits of which I am pleased to report have been passed directly to customers in the form of improved prices. It is certainly the case that we are making positive moves toward returning to profitability, but there is still a great deal for us to do.

Company Performance

Given the stark and uncompromising challenges it is no surprise but nevertheless disappointing to report that Guernsey Post has made an operating loss of £0.9m during 2010/11 (gain of £0.3m during 2009/10). However, before the impact of the FRS17 pension adjustment and some exceptional non-recurring items including redundancy payments and the legal costs incurred in our efforts to limit the liberalisation of the Guernsey postal market, the underlying financial performance is actually better than the previous year.

The Company has maintained a strong commitment to delivering high quality services and reducing customer complaints whilst at the same time achieving a significant headcount reduction. This in itself is clear evidence that Guernsey Post is becoming a more efficient and effective business.

Company Strategy

During the course of 2010 the Guernsey Post Board endorsed a new strategy, which clearly reflects the significant change and transformation required within the business. Our new strategy has required us to speed up the implementation of our cost reduction programme and sharpen our focus on our customers by developing new mail products that are superior to those provided by our competitors. Our key commercial strategic objectives are now very closely aligned to the core competencies of the business. They are:-

- To defend bulk mail profits in a competitive market.
- To increase our Philatelic profits.
- To make profit from new opportunities that leverage our delivery and collection infrastructure.

- To grow the number of customer transactions processed within our business.
- To be the market leader in Express services within the Bailiwick of Guernsey.

Guernsey Post continues to benefit from the presence of the fulfilment industry, but the pressure on Low Value Consignment Relief (LVCR) has intensified to a new high in the last twelve months. In November 2011 the LVCR will shrink from £18 to £15, which could potentially have a devastating effect on some sectors and businesses on the Island. In our efforts to work with our customers we have significantly reduced prices for international mail in support of their diversification into new markets and we will shortly launch new bulk mail products that will give customers the choices they require at prices that are comparable to any other operator in the Channel Islands.

Finally, the Board will strive to improve the efficiency of the business by conducting a full review of its asset portfolio and capital requirements. Our aim is to ensure that Guernsey Post is sufficiently equipped for the future whilst at the same time delivering maximum value to its shareholder.

The Board

In September 2010, the Guernsey Post Board appointed Boley Smillie as the Company's new Chief Executive. Boley, who had previously held the position of Operations Director, was born and educated in Guernsey and joined Guernsey Post in 1991. We are extremely pleased to have made a local appointment, which underlines our efforts to ensure the most senior roles within the organisation are supported by an effective succession plan.

A number of changes have also taken place among our complement of non-executive directors. Jeff Kitts, having served on our Board as a non executive director since 2005, retired on 28th March 2011, and Dame Mary Perkins resigned from the Board to focus on her extensive commitments to the Specsavers Optical Group. Dame Mary and Jeff have been tremendous assets to the Board and I would like to thank them personally for their professionalism, commitment and for their valuable support.

Two new non-executive directors have been appointed to the Board. Stuart Le Maitre brings 20 years' experience within the civil service, during which time his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs. Stuart also worked on the development of the regulatory framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation.

Simon Milsted has also joined the Board as a non-executive director. Simon has extensive experience as a chartered accountant originally with Price Waterhouse in London, during which time he engaged in a series of special assignments for the Bank of England. In 1985 he became non-executive chairman of the BSI Group, a business process outsource specialist in the business travel sector, before moving to Guernsey with his wife in 2010.

We have maintained a strong focus on our corporate governance during this financial year. The Board undertook another effectiveness review, which reinforced our belief that as a collective we are a cohesive unit committed to best practice. Our Audit Committee is now well established within the business, ensuring that Guernsey Post's financial reporting and risk management processes are up to the required high standards. Our Remunerations and Nominations committees have also had an extremely busy year in leading the process to appoint our Chief Executive and our two new non-executive directors.

It is my view that the Board has continued to provide effective leadership, and that there is a clear strategy and business plan in place to achieve our corporate objectives.

The Company and its People

The organisation is working extremely hard to offset the impact of the external threats to our business. The scale and speed of change is unprecedented in terms of our history and is extremely challenging to all those affected. I would like to thank our staff and Trade Unions for the collective determination and resolve with which they are approaching this transition and most importantly their dedication to delivering excellent service. This commitment was recognised earlier in the year when Guernsey Post was placed first in the World Mail Awards for People Management. Despite strong opposition from thirteen international postal companies, Guernsey Post was recognised for its continued commitment to internal change including developing partnerships with its Trade Unions and the successful implementation of learning and development within the organisation.

I am confident that with the continued support of our people we will achieve success that sets Guernsey Post apart in an industry where only those who are able to adapt and reinvent themselves are able to survive.

D R Jehan
Chairman
July 2011

The last year for Guernsey Post marks a year of transition and renewed optimism within our business

Chief Executive's Report

It seems mandatory, particularly in the digital age, that the Chief Executive of a postal administration must paint a bleak picture of life within our industry. In many respects that could easily be justified given the very real experiences of the last twelve months. The global postal market continues to experience volume decline in traditional services, the company was involved in a difficult dispute with the OUR, which then led to a number of our key account customers losing confidence in the business. Royal Mail charges have continued to increase at inflation-busting levels, and an interim valuation of Guernsey Post's pension scheme highlighted a record deficit. Finally, bulk mail exports have declined, and in March 2011 the headline news from the UK budget regarding the future of the Low Value Consignment Relief delivered a blow to the industry, the full effect of which we are yet to experience.

Despite these challenges, the last year for Guernsey Post marks a year of transition and renewed optimism within our business. It also marks a year where we have done more than talk about the need for change; we have actually started to deliver it. It marks a year where we have transformed a number of key relationships with customers, suppliers and stakeholders to the benefit of our organisation. We have also developed a clear strategy; one that has been endorsed by our Board, our shareholder, our Trade Unions and our Employees. Our plan is underpinned by a collective and determined view that will see us through these difficult times.

Business Performance

Whilst it is disappointing to report an operating loss of £0.9m for the trading year (gain of £0.3m during 2009/10), it is significantly better than the forecast full year position of a £1.7m operating loss. The implementation of our plans to offset the decline in core mail volumes and return to profitability are now well under way. Regrettably, this has resulted in job losses at all levels within the organisation, equating to a 20% reduction in our administration and support departments. Further job losses are inevitable and necessary in our operations department, which we are confident will be achieved through our recently launched voluntary redundancy programme. The Board will continue to focus on cost reduction initiatives during the coming year and develop solutions in partnership with our Trade Unions, who equally have recognised the urgent need for transformation.

The financial performance of the Philatelic Bureau has held up well despite year on year underlying declines in the active customer base. Revenue in the financial year exceeded £1m, 20% ahead of forecast. Our foreign exchange business, Batif, also continues to perform well despite a difficult economic climate.

We have maintained a strong focus on quality of service during the last twelve months and once again met all of our targets.

In January 2011, we developed a range of new international bulk mail products, which is proving extremely successful and has seen us win business from competitors and increase our market share.

The challenge for Guernsey Post is to manage the decline in traditional markets by cutting the cost base whilst also identifying growth opportunities that exploit the core competencies of the business

The Guernsey Postal Market

In October 2010 we reached an agreement with the OUR, bringing a conclusion to the liberalisation dispute which, during the previous twelve months, had consumed so much time and energy from the business. This agreement formally opened up the packet market, but critically maintained the reserved area for large letters below a value of £1.35.

In the coming months the States of Guernsey will engage in an important debate regarding the future of regulation, alongside the scope of our USO. We strongly believe that the States of Guernsey should make the primary objective of the OUR, to protect the USO given that it forms such an integral element of our society. In return, the Guernsey Post Board is committed to a strategy that combats declining core volumes by reducing costs, wherever we can, and securing new business closely aligned to our core competencies.

Our Customers

It was important to make a commitment to our customers that extended beyond the usual promise of future savings minimising future price increases. As such, during our most recent price application, we fed the benefit of our savings initiatives immediately through to price.

Price rises in the near future are inevitable but only after we have absorbed as much of the impact as is practicably possible by being more efficient ourselves. We are also developing new products with new suppliers that will give our customers choice and mitigate the impact of Royal Mail charge increases.

Looking Forward

The outlook for 2011 is equally challenging, with traditional mail volume declines set to continue, the planned privatisation of Royal Mail will almost certainly result in significant increases in charges and we expect further changes to the LVCR.

The challenges facing Guernsey Post are not unique but it is also true that many postal organisations throughout the world have struggled to keep pace with market and economic changes. The challenge for Guernsey Post is to manage the decline in traditional markets by cutting the cost base, whilst also identifying growth opportunities that exploit the core competencies of the business. It is this combination that will ensure postal services and the USO remain sustainable in the long term.

Boley Smillie

Chief Executive

July 2011

We are endeavouring to remain competitive and innovative for our customers

Finance Director's Statement

Although our underlying financial performance improved, several parts of the business exceeded our expectations and we made good progress against our cost reduction targets, I am disappointed to report that the difficult trading environment caused Guernsey Post to make an operating loss of £0.9m in 2010/11, which compares with an operating profit of £0.3m in 2009/10. The impacts of FRS17 pension adjustments, investment in lower bulk and business prices, higher Royal Mail charges, a fragile UK economy, the part liberalisation of the Bailiwick postal market and some dubious regulatory decisions all combined to weaken our overall financial performance.

Profit and loss account

Turnover fell by 3.1% to £44m. Bulk mail volumes declined by 10% because several of our key customers suffered poor trading as a result of technological change and an uncertain UK consumer, whilst the part-liberalisation of the Bailiwick postal market allowed some important customers to switch their mail to a new entrant that operates with a more favourable cost structure.

We are endeavouring to remain competitive and innovative for our customers and during the year we invested heavily in lower international bulk mail prices and the introduction of a discount for business customers, but this also contributed to the decrease in turnover. In response to regulatory and market demands, we introduced a downstream access product that has not yet reached the critical mass necessary to fill our minimum capacity and is therefore only marginally profitable.

We did not experience the decline in mail originating from the UK and the Rest of the World that we were expecting, which remained flat year on year as the growth in packets ordered online compensated for the decline in letter volumes. There was also strong demand for our premium time-guaranteed, next-day delivery service from several of our customers who recognised the importance of the reliability, security and traceability it provides to their customers.

Expenditure dropped by 0.5% to just under £45m. Royal Mail charges for the delivery of international mail rose significantly. FRS17 pension costs increased from £0.1m to £0.6m. Although this is an accounting adjustment, it does reflect the higher cost of providing the benefits of the scheme. The OUR's decision to classify international packets as large letters in the 2010/11 tariff cost us £0.5m because there has been a huge dislocation between the price we charge customers and the rate Royal Mail charges Guernsey Post.

Our voluntary redundancy programme and natural attrition led to a reduction in the number of employees in our head office at the end of the year compared with the start of the year, resulting in significant payroll savings. We undertook this action to address the decline in bulk mail, as well as adopting a cost control initiative that resulted in savings of more than £0.25m. Unfortunately, a lot of these savings were absorbed by the expenditure associated with the OUR legal appeal and the cost of the redundancies.

The good news is that although we made an operating loss, after adjusting for the impact of FRS17, redundancies and other non-recurring items our underlying performance in 2010/11 was better than 2009/10. This is mainly the result of the strong performances

from southbound mail and Royal Mail Special Delivery, along with the economies we have made in our payroll and non-payroll expenditure.

Balance sheet

Shareholders' funds increased from £19.8m to £20.9m as the FRS17 pension deficit decreased from £9.4m to £7.8m. This was a consequence of the recovery in asset markets during 2010 and a small rise in inflation, which led to a higher discount rate and therefore a lower deficit. The Board recognises the uncertainty created by the pension deficit and we are working with our unions, employees and other stakeholders to manage the risk it presents and to provide some certainty on its future funding requirements.

We still have a very strong Balance Sheet, with nearly £15m of cash in the bank. The Board believes that the Company has surplus cash and is actively considering how to improve the efficiency of the Company's capital structure. This analysis is expected to be completed in the next few months and further details will be announced at the appropriate time.

Cash flow statement

In addition to our cost saving initiatives, we have also focused on improved management of our working capital. We increased our cash balances by over £0.6m during the year as the Company benefited from robust operating cash flow and a light capital expenditure programme following large capital outlays in 2009/10. We managed our working capital well during the year and did not suffer any changes to our credit terms from Royal Mail, as we did in 2009/10.

Outlook

The outlook for the Company is challenging and we are budgeting to make a loss in the 2011/12 financial year. We have made contingencies to overcome the loss of several customers or a significant proportion of their mail volumes as a result of the UK Government's decision to reduce the LVCR threshold to £15, but we could lose more if the limit changes further. A number of our key customers are either the subject of corporate activity or suffering a major downturn in trade.

We are going to sustain a material increase in our Royal Mail charges in 2011/12 because the UK postal regulator has allowed Royal Mail to increase its prices to business customers by more than 15%. We have negotiated hard to mitigate any increase and are looking at alternatives such as DSA, but the balance of power is one-sided and we have asked the OUR to re-open the current price control in the expectation that we will be able to recover any justifiable Royal Mail increase from customers.

Our price control for 2011/12 is predicated on the achievement of significant savings in postal operations. This is a major challenge that will lead to large redundancy costs, but the necessary changes to our sorting office should be implemented in June of this year.

The Board is also considering the pension scheme and how to make it more affordable and sustainable for the benefit of our current and past employees.

Our response to these challenges is to seek new customers that meet the requirements of the UK and Bailiwick governments, to focus on the growth that the internet is bringing to the postal service and to continue our cost reduction and management programme. Whilst waiting for the mists surrounding LVCR and Royal Mail to clear, we are concentrating on our core business, the provision of a high-quality, excellent value postal service.

Richard Hemans
Finance Director
July 2011

Better management results in significant ongoing savings

Environment Report

The company's environmental policy is firmly established in all that we do at Guernsey Post as we strive to improve the impact of our operations on the local and global environment.

Our waste management programme has progressed well and we continue to evaluate and improve our energy consumption.

Future projects include performing detailed energy surveys that will recommend how we can replace ageing lighting, heating and air conditioning systems with more efficient environmentally friendly technology.

Waste Management

We have maintained a strong focus on our waste management strategy during the last year, not least of which is our aim too further reduce the volume of waste sent to landfill. A continuously expanding range of materials are now recycled from our Postal Headquarters including everything from plastic packaging to printer cartridges to cooking and engine oil.

70% of the materials used by the company were recycled during the last year, an excellent achievement, but still we strive for further improvement.

Building Facilities

An energy survey conducted at Envoy House last year gave us a valuable insight into how the buildings resources could be used more efficiently; reducing energy consumption, lessening the impact on the environment and saving money at the same time.

By reprogramming our boiler and air-conditioning systems, we achieved a 30% reduction in our energy consumption which has equated to an ongoing saving of approximately £40,000 per annum.

A second survey planned for later this year will appraise the benefits of installing new cost efficient energy management technology. This will include the use of solar energy, ground/ air source heat pumps and LED lighting. We aim to reduce our energy consumption by a further 25% after the implementation of these initiatives.

EcoCooling project

The installation of six EcoCooling units resulted in an environmentally friendly and cost effective solution to the high temperatures often experienced during the spring/summer months in the mail sorting hall at Envoy House.

The EcoCooling Units, which utilise cutting edge technology, are the first of their kind on the island, and use the natural free process of evaporative heat exchange to cool the surrounding air.

The new units' have helped to create a healthier, more comfortable working environment for employees and they cost 90% less to run than conventional air conditioning.

Wild Garden

We have not forgotten our external surroundings and this is evident in our flourishing Wild Garden at the front of Envoy House which provides a haven for insects and wild flowers.

Support this year has been given to a number of very worthy local and international causes

Corporate Social Responsibility

Guernsey Post continues to take seriously its responsibility to support the communities we serve.

As part of our day to day involvement with the community our postal workers are often complimented on their contribution to the wellbeing of the communities they serve. These are often small unreported acts of assistance but sometimes are more prominent and occasionally life saving.

On a formal basis we channel our support for the community through our "Supporting Together" initiative.

This initiative gives support to community projects or events that our staff are already involved with – the Company gives an extra boost by supplying financial assistance (most commonly on a matched fund raising basis) or by giving time for employees to achieve their charitable/community goals.

Support this year has been given to a number of very worthy local and international causes – these include:

- The Priaulx Premature Baby Foundation
- The Tumaini Fund
- The MS Society
- The GFA – kits for Africa
- The Race for Life
- The Pakistan floods disaster fund
- Movember – The Prostate Charity Fund
- Rotary Club – Purple Pinkie Day
- The Western Community Centre – Internet support group
- The Sark Theatre Group
- The Guernsey Majorettes
- The Guernsey Marathon

This year the events supported involved over 200 of our colleagues for these charity, social and sporting causes.

With an ageing working population we are also proud to have been internationally recognised for our initiatives to provide working opportunities for older workers.

Guernsey Post was awarded the 2010 International Innovative Employer award by AARP who are a global society who campaign and facilitate rights for older workers.

The Company was the smallest ever to receive the award – following big names like BMW, British Telecom and other international winners from Europe right across to Asia. We are also the first postal authority to receive the award and the first Channel Islands company to win it.

Board Profiles

Dudley Jehan
Chairman

Born and educated in Guernsey, Dudley Jehan trained as a Meteorologist with the Air Ministry, working at Heathrow and Guernsey Airports before joining the British Antarctic Survey in 1960. During his four-year posting he was appointed Base Commander Halley and was awarded a Polar Medal by Her Majesty the Queen for outstanding contribution to science and discovery.

On returning to Guernsey he began a career in commerce, retiring in 2003 as Chief Executive of the Norman Piette Group of seven local trading companies serving the construction and home improvement sectors. He remains NP Group's Chairman today.

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of Non-Executive Directorships and has been a non-States Member for over 25 years. He is currently a member of the Housing Board. He joined the Board of Guernsey Post in 2003 and has served as Chairman for the last six years.

Boley Smillie
Chief Executive

Born and raised in Guernsey, Boley Smillie joined Guernsey Post in 1991 straight from his secondary education at La Mare de Carteret School. The subsequent nineteen years have seen him gain a wide range of experience in different roles, rising through the ranks of the company. Initially employed as a clerical assistant he moved to Customer Services, then on to Logistics before being promoted to Head of Letters and Parcels in 2004. He became Operations Director in 2007 and an Executive Director in April 2010. In July 2010 he was appointed interim Chief Executive before taking the role on a permanent basis in September 2010.

During this time he has added to his hands on experience by undertaking a number of professional qualifications, including certificates in marketing and business and finance. Most recently he was awarded the certificate in Company Direction from the Institute of Directors.

Richard Hemans
Finance Director

Richard Hemans studied English Literature and French at university before returning to Guernsey in 1996 to train as a Chartered Accountant with BDO Reads. He qualified in 1999 and after travelling for six months he joined Guernsey Telecoms as the Financial Accountant. Having worked on the commercialisation of Guernsey Telecoms, he then moved to the Jacksons Group as the Financial Controller before setting up as a freelance accountant working for a variety of clients in the retail, financial services and media industries.

He wrote a weekly business column for the Guernsey Press called 'The Mercury Column' and also set up a Channel Islands business brokerage to facilitate the sale and purchase of businesses in the islands, which he sold in 2008.

In 2006, he was appointed the Finance Director of one of his clients and remained there to oversee the growth of the company and the establishment of the finance function. He joined Guernsey Post in early 2008.

Andrew Duquemin
Non-Executive

Andrew Duquemin has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He has extensive experience in the listing of companies on both the London Stock Exchange and the Channel Islands Stock Exchange. He is also a Director of Corporate Consultants Limited, a Guernsey based consultancy business that has provided corporate finance and management consultancy services since 1991.

He is Chairman of Elysium Fund Management Limited, a company providing fund management and corporate finance services to a range of funds and trading companies. Elysium was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was Managing Director.

Andrew sits on the boards of several local trading companies and a London-listed hedge fund company. He is also a Fellow of the Securities Institute and holds the advanced diploma in Corporate Finance.

Stuart Le Maitre
Non-Executive

Stuart Le Maitre was born and educated in Guernsey. Following a brief period of employment at the Guernsey Post Office he studied in Bristol and obtained a degree in Education and a post graduate qualification in Careers Guidance. He held a senior position in the Careers Service at Buckinghamshire County Council for five years before returning to join the Civil Service in Guernsey, and held senior positions for the next 20 years.

During this time, his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs, health and safety in the work place and initiatives to support the development of the non-finance sector of the Island's economy. Having worked on the development of the regulatory framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation, was also involved in the commercialisation of the States' Trading Utilities.

On leaving the Civil Service, Stuart undertook a variety of Consultancy assignments and in 2006 was appointed as Chief Operating Officer with responsibility for the set up phase of new local mobile telephone company.

He has recently taken up the position of Chief Executive of the Medical Specialist Group in Guernsey and holds other local Board positions.

Simon Milsted
Non-Executive

On qualification as a Chartered Accountant in 1982 Simon Milsted joined the London City office of Price Waterhouse during which time he was engaged on a series of special assignments for the Bank of England . Two consecutive assignments took him to the West Country, following which he moved his young family westwards transferring permanently to PW's Bristol Office.

In 1988, Simon co-founded an independent firm of Chartered Accountants that soon became one of the fasted growing and most well respected independent firm of advisers in the South West, bringing a high level of specialist and consulting advice to the Owner-Managed business community across the Region.

In 1995, Simon invested in and became non executive chairman of the BSI Group, a business process outsource specialist in the business travel sector. A company that became the European leader in its field. Over more recent years, Simon has held office as Regional President of the Institute of Chartered Accountants in England and Wales, sat on a number of Government sponsored business support bodies and was a governor and non executive treasurer of a leading South West public school.

In 2010, Simon and his wife moved to Guernsey to open a new and exciting chapter in their lives, during which he will continue his active engagement with the business community both as a principal and in an advisory capacity.

Steve Hannon
Non-Executive

Steve Hannon has nearly 40 years experience in the postal industry. For the majority of that time he worked for Royal Mail where he managed several multi million pound, high profile national projects including the introduction of postal automation, a new rail, road and air network, rationalising and revamping London's mail centre infrastructure and planning the nationwide introduction of the single letter delivery.

He also spent a two-year period as a divisional General Manager responsible for a workforce of 13,000 people and an annual budget of £400m. During this time he covered the complete range of management functions embracing sales, customer services, finance, human resources, planning and operations.

Since leaving Royal Mail in 2003 he has undertaken consultancy work in the postal field and became a director of Postal and Logistics Consulting Worldwide. He was appointed Chief Executive of the company in 2008.

Between July 2006 and February 2007 he undertook the role of Interim Chief Executive of Guernsey Post.

Corporate Governance

Compliance

The Combined Code on Corporate Governance 2006 (the Code) outlines the main principles and provisions that companies should adopt in relation to corporate governance. This report describes Guernsey Post's compliance with the Code. Guernsey Post is committed to the development of a sustainable and profitable business that benefits all stakeholders, which includes achieving the highest standards of corporate governance for our shareholder, the States of Guernsey.

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources that sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has continued to work hard on its corporate governance programme during the financial year ending 31 March 2011, and the achievements are summarised in this report.

The Board

Directors

The Board's role is to provide entrepreneurial leadership of the Company within a prudent and effective framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the Company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the Company, sets its values and standards and takes decisions objectively in the interests of the Company, its shareholders and other stakeholders.

Non-executive directors help to develop and challenge the Company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for executive directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to the shareholder and those which can be delegated to Committees of the Board or senior management.

There were ten board meetings held during 2010/11. If a Board member cannot attend a meeting, he or she receives a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

The names of the members of the Board Committees are set out on pages 19 and 20, together with details of their background. The Board Committees have authority to make decisions according to their terms of reference.

Chairman and Chief Executive

Guernsey Post has a non-executive chairman and a Chief Executive. There is a clear division of responsibility between the two positions, with the Chairman responsible for the running of the Board and the Chief Executive responsible for the running of the Company's business.

Dudley Jehan spends, on average, 1 day per week in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Gordon Steele resigned as Chief Executive on 26 July 2010 and was replaced by Boley Smillie in an interim capacity on the same date. Boley's appointment as the permanent Chief Executive was approved by the Board on 27 September 2010.

Following the retirement of Jeffrey Kitts on 28 March 2011, Andrew Duquemin is the senior independent director and is available to talk to shareholders if they have any issues or concerns.

Board balance and independence

Throughout the year the Company has had a balance of independent non-executive directors on the Board who ensure that no one person has disproportionate influence. Only Steve Hannon is not considered to be independent because he has previously been the Chief Executive of the Company. All the non-executive directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

There are currently five non-executive directors and two executive directors on the Board, which is under review with the objective of increasing the number of executive directors.

Corporate Governance (continued)

Appointments to the Board

Recommendations for appointments to the Board are the responsibility of the Nominations Committee, which has recently revised the procedures and criteria it follows for the selection of new board members. The appointment of non-executive directors has to be ratified by the States of Guernsey.

The Nominations Committee meets quarterly to consider the balance of the Board, job descriptions and objective criteria for board appointments and succession planning.

Apart from the resignation of Gordon Steele as Chief Executive, Dame Mary Perkins resigned and Jeffrey Kitts retired from the Board during the year. They have been replaced by Simon Milsted and Stuart Le Maitre, following a rigorous and transparent nominations process.

Information and professional development

For each scheduled board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled board meeting, the directors receive the prior month and cumulative company financial and operating information.

All newly appointed directors participate in an extensive internal induction programme that introduces the director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on board procedures and corporate governance. In the year ending 31 March 2012, the Board will receive its biannual update on the latest developments in corporate governance and a refresher of the key principles.

The Company Secretary, who is appointed by the Board and is also the Finance Director and an Executive Director, is responsible for ensuring compliance with board procedures. This includes recording any concerns relating to the running of the Company or proposed actions arising there from that are expressed by a director in a board meeting. The Company Secretary is also secretary to the Remuneration and Nomination Committees. The Company Secretary is available to give ongoing advice to all directors on board procedures, corporate governance and regulatory compliance.

Attendance at Board and Board Committee meetings

Attendance during the year for all board and board committee meetings is given in the table below:

ATTENDANCE AT BOARD COMMITTEE MEETINGS (A)

	Board	Audit Committee	Nominations Committee
Dudley Jehan	10/10		
Boley Smillie	6/6	1/1	2/2
Richard Hemans	10/10	2/2	4/4
Andrew Duquemin	8/10	2/2	
Steve Hannon	9/10		4/4
Gordon Steele	2/3	1/1	2/2
Dame M Perkins	4/9	1/2	
Jeff Kitts	8/10		4/4

	Pension Committee	Remuneration Committee
Dudley Jehan		
Boley Smillie	1/1	2/2
Richard Hemans	1/1	4/4
Andrew Duquemin	1/1	
Steve Hannon		4/4
Gordon Steele		2/2
Dame M Perkins		
Jeff Kitts		4/4

(A) The first figure represents attendance and the second figure the possible number of meetings e.g. 6/8 represents attendance at 6 out of a possible 8 meetings. Where a director stepped down from the Board or a Board Committee during the year, or was appointed during the year, only meetings before stepping down or after the date of appointment are shown.

Performance evaluation

The Board underwent an evaluation of its performance in March 2011 using a questionnaire and board discussion. The evaluation was very positive, confirming that the Board is satisfied with the information it receives, its ability to make decisions and the control it has over Company affairs. The Board also recognised the need to undertake thorough appraisals of past decisions that have had a material financial or reputational impact so that it can learn from them.

Corporate Governance (continued)

Election and re-election of directors

Guernsey Post Ltd's articles state that a non-executive director should be proposed for re-election if he or she has been appointed to the Board since the date of the last AGM, or proposed for re-election if he or she has held office more than three years at the date of the notice convening the next AGM. The Board ensures that each non-executive director submits himself or herself for re-election by shareholders at least every three years.

Non-executive directors serve the Company under letters of appointment, which are generally for an initial three year term. Their appointment is also ratified by the States of Guernsey.

At the 2011 AGM, Dudley Jehan, the Chairman, is being recommended by the Board and will be proposed for re-election. Dudley will remain in post until the Board has identified, developed and appointed his successor.

Furthermore, Simon Milsted and Stuart Le Maitre are being recommended by the Board and will be proposed for election. Simon is a Chartered Accountant who worked for one of the Big Four accountancy firms before demonstrating his entrepreneurial qualities by setting up his own independent firm of Chartered Accountants, specialising in providing advice to local, owner-managed companies. He then invested in and became non executive chairman of a business process outsourcing specialist in the business travel sector that became the European leader in its field. Stuart brings significant experience of the public and private sectors, start-up and established businesses, industrial relations and regulation, having worked in the UK and Guernsey civil services for twenty five years before becoming the Chief Operating Officer of a telecoms start-up in the Bailiwick and more recently the island's leading private healthcare provider.

Remuneration

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by the States of Guernsey.

The Remuneration Committee, which is chaired by Stuart Le Maitre, consists of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the Group's annual salary negotiations. No director is permitted to be present when his own remuneration is being discussed, or to vote on his own remuneration. The Remuneration Committee considers that the procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of shareholders.

Accountability and audit

Financial reporting

The intention of the Annual Report is to provide a clear assessment of the performance and prospects of Guernsey Post Ltd. The Company has a comprehensive system for reporting financial results to the Board. An annual budget is prepared and presented to the Board for approval. During the year, monthly management accounts, including balance sheet, cash flow and capital expenditure reporting, are prepared with a comparison against budget and prior year. Forecasts are revised in the light of this comparison and also reviewed by the Board.

Internal control and risk management

During 2010/11 the Executive Team undertook a comprehensive review of the risks facing the business, ensuring that there are robust controls and actions in place to manage them. The Board approved the approach and will receive biannual updates on progress. The risk management process is the responsibility of the Finance Director.

All directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the Company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

The Audit Committee and the Board approved the removal of the role of Head of Internal Audit, which has allowed the post holder to assume a more operational role focused on regulatory and compliance matters. The Board now obtains its assurance on the effectiveness of the system of internal control from other sources, including regular updates on risk management and internal control, health and safety, AML and CFT compliance, the external audit, monthly management information and representations from the Executive Team.

Corporate Governance (continued)

Audit committee and auditor

The Audit Committee was re-constituted in December 2008. The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the Company's relationship with the Company's external auditor. The Committee members comprise independent non-executive directors. Andrew Duquemin was appointed as the chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Dame Mary Perkins has been replaced by Simon Milsted as the other member of the Audit Committee. Simon is a qualified accountant with wide experience of owning and managing trading companies.

The Committee approved the removal of the role of Head of Internal Audit as noted above. The Audit Committee will consider annually the need for an internal audit function.

The Committee meets twice a year with representatives of the Company's external auditor, and the Chief Executive and the Finance Director also attend the meetings.

Shareholder relations

The Board believes that good communication with the shareholder is a priority. There are regular meetings between the Chief Executive and the Finance Director of Guernsey Post, and the Chief Officer and Chief Accountant of Treasury & Resources. The Company presents its strategic plan to the shareholder for approval every year.

The Chairman and senior independent director are available to meet with the shareholder should there be unresolved matters that the shareholder believes should be brought to its attention. The non-executive directors meet with the shareholder at the AGM, as well as the Executive Team.

The date of the AGM is agreed with the shareholder and ten days' working notice is given. The AGM is chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. The shareholder is given the opportunity to ask questions of the Board and the Chairman of each board committee during the AGM.

Committees of the Board and main terms of reference

In addition to regular scheduled board meetings, the Company operates through various board committees, of which the membership and main terms of reference are set out below (except the Audit Committee which is outlined above).

Jeff Kitts was the Chairman of the Nominations Committee until his retirement on 28 March 2011. He has been replaced by Stuart Le Maitre. Steve Hannon is the other non-executive director who serves on the Nominations Committee. The main terms of reference of this Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board, Board Committees and as holders of any executive office. The Committee met four times in 2010/11 and all members of the Committee were present.

Jeff Kitts was the Chairman of the Remuneration Committee until his retirement on 28 March 2011. He has been replaced by Stuart Le Maitre. Steve Hannon is the other non-executive director who serves on the Remuneration Committee. The main terms of reference of this Committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the Company and to determine the policy for, and scope of, pension arrangements for each executive director. The Committee met four times in 2010/11 and all members of the Committee were present.

Andrew Duquemin is the Chairman of the Pensions Committee, supported by the Chief Executive, Finance Director and HR Director. Simon Milsted joined the Committee in June 2011. The main terms of reference of this Committee are to review and make recommendations to the Board on the Company's retirement and post retirement benefit arrangements including the control and funding of such arrangements. The Committee met once formally in 2010/11, and all members of the Committee were present, but it also updated the Board on a monthly basis on the development of strategic options to reorganise the pension scheme given the likely increase in its cost and the uncertainty it creates for the Company.

Director's Report

The directors present their annual report together with the financial statements for the year ended 31 March 2011.

Principal activities

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Director General of Utility Regulation. The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

Significant events

In February 2010, the Company launched an appeal in the Royal Court against the Office of Utility Regulation's decision to reduce the reserved area, which governs the value of mail over which Guernsey Post holds a monopoly, from £1.35 to £1, and to exclude all packets. In September 2010, the Company reached an out of court settlement with the OUR, which means that the reserved area will remain at £1.35 excluding packets. The Board is confident that this lower reserved area will enable the Company to finance its Universal Service Obligation in the short term.

In March 2011, the UK Chancellor of the Exchequer announced that the threshold for Low Value Consignment Relief (LVCR) would fall from £18 to £15 from November 2011 and that the UK Government would be exploring options with the European Commission to prevent the exploitation of the relief for a purpose it was not intended for. The Board is monitoring these developments very closely because further reductions in the threshold of LVCR or the derogation of certain industries from the Relief could have significant adverse consequences for the fulfilment industry in Guernsey, from which Guernsey Post generates most of its profits.

Results

The results for the year are shown in the profit and loss account on page 19.

Dividend

The directors do not recommend a dividend for the financial year (2010: 1.22p per ordinary share). The total value of the dividend for 2010 was £273,109.

Fixed assets

Fixed asset movements for the year are disclosed in note 7 to the financial statements.

Directors

The directors of the Company, who served throughout the year and at the date of this report, were as follows:

D R Jehan

B Smillie (appointed 26 April 2010)

R J Hemans

A Duquemin

S Le Maitre (appointed 27 May 2011)

S Milsted (appointed 27 May 2011)

S Hannon

G R Steele (resigned 26 July 2010)

Dame M Perkins (resigned 28 February 2011)

J Kitts (retired 28 March 2011)

No director has an interest either beneficially or non-beneficially in any shares of the Company (2010: no interest beneficially or non-beneficially).

In accordance with the Articles of Association D R Jehan is due to retire by rotation and being eligible offers himself for re-election at the forthcoming AGM. Simon Milsted and Stuart Le Maitre were appointed as directors following the year end and will be offering themselves for election at the AGM.

Director’s Report (continued)

Statement of directors’ responsibilities

The directors are responsible for preparing the Directors’ Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 and the Post Office (Guernsey) Law 1969. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors’ Report confirm that, so far as they are each aware, there is no relevant information of which the Company’s auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

Auditors

KPMG Channel Islands Limited has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

B Smilie	DR Jehan
Chief Exectuive	Chairman

Independent Auditor's Report

KPMG

20 New Street, St. Peter Port, Guernsey, GY1 4AN

Independent auditor's report to the members of Guernsey Post Limited

We have audited the financial statements of Guernsey Post Limited (the "Company") for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and Section 10(1) of the Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Directors and the Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the directors' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its loss for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited

Chartered Accountants

Profit and Loss Account

For the year ended 31 March 2011

	Notes	**31 March 2011 £'000**	31 March 2010 £'000
Income		**44,003**	45,392
Expenditure		**(44,921)**	(45,132)
Operating (loss)/profit	2	**(918)**	260
Other income			
Interest receivable	3	**182**	207
Rents receivable		**70**	58
(Loss)/profit on ordinary activities before net return on pension scheme		**(666)**	525
Net return on pension scheme		**(231)**	(290)
(Loss)/profit on ordinary activities before taxation		**(897)**	235
Taxation credit/(charge)	4	**289**	(73)
(Loss)/profit for the financial year		**(608)**	162

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2011

	Notes	**31 March 2011 £'000**	31 March 2010 £'000
(Loss)/profit for the financial year		**(608)**	**162**
Actuarial gain/(loss) recognised in the pension scheme	17	**2,402**	(2,481)
Dividend paid	5	**(273)**	(614)
Movement on deferred tax attributable to actuarial (gain)/loss	12	**(480)**	496
Unrealised gain on revaluation of investment properties	14	**25**	-
Total recognised gains and losses relating to the year		**1,066**	(2,437)

All activities derive from continuing operations

The notes on pages 22 to 39 (*29 to 48) form an integral part of these financial statements

**These page numbers refer to the original Financial Statements document approved by the auditors.*

Balance Sheet

As at 31 March 2011

	Notes	**31 March 2011 £'000**	31 March 2010 £'000
Fixed assets			
Intangible assets	6	**377**	451
Tangible assets	7	**12,385**	13,008
Investment properties	8	**900**	875
Investment in subsidiaries	9	**-**	-
		13,662	14,334
Current assets			
Stock		**219**	265
Debtors	10	**6,396**	5,939
Cash at bank and in hand	16	**14,563**	13,959
		21,178	20,163
Creditors: Amounts falling due within one year	11	**(7,770)**	(7,130)
Net current assets		**13,408**	13,033
Total assets less current liabilities		**27,070**	27,367
Provisions for liabilities and charges	12	**70**	(47)
Net assets excluding pension liability		**27,140**	27,320
Net pension liability	17	**(6,235)**	(7,481)
Net assets including pension liability		**20,905**	19,839

Capital and reserves

	Notes	**31 March 2011 £'000**	31 March 2010 £'000
Share Capital	13	**22,386**	22,386
Profit and loss account	14	**(1,466)**	(2,507)
Revaluation reserve	14	**(15)**	(40)
Shareholders' funds	15	**20,905**	19,839

The financial statements were approved by the Board of Directors and authorised for issue on 13th July 2011.
They were signed on its behalf by:

B Smillie
Chief Executive

DR Jehan
Chairman

The notes on pages 22 to 39 (*29 to 48) form an integral part of these financial statements

**These page numbers refer to the original Financial Statements document approved by the auditors.*

Cash Flow Statement

For the year ended 31 March 2011

	Notes		**31 March 2011**		31 March 2010
			£'000		£'000
Net cash inflow/(outflow) from operating activities	16		**1,076**		(4,829)
Returns on investments and servicing of finance					
Interest received		**182**		207	
Rent received		**70**		58	
Net cash inflow from returns on investments and servicing of finance			**252**		265
Taxation			**(173)**		(219)
Capital Expenditure					
Purchase of fixed assets		**(204)**		(974)	
Sale of fixed assets		**6**		10	
Net cash outflow from capital expenditure			**(198)**		(964)
Dividend paid			**(273)**		(614)
Acquisitions and disposals					
Deferred consideration on purchases of subsidiary undertaking			**(80)**		(100)
Increase/(decrease) in cash	16		**604**		(6,461)

The notes on pages 22 to 39 (*29 to 48) form an integral part of these financial statements

**These page numbers refer to the original Financial Statements document approved by the auditors.*

Notes to the Financial Statements
(year ended 31 March 2011)

1. Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements give a true and fair view, have been prepared in accordance with applicable United Kingdom Accounting Standards and are in compliance with the Companies (Guernsey) Law, 2008.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipt of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred Taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme deficit shown in the balance sheet is net of the deferred tax asset.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The employees' pension scheme is a defined benefit scheme. The Company applies Financial Reporting Standard 17, "Retirement Benefits" ("FRS 17"). In accordance with FRS 17 current service costs and any post service costs are charged to the profit and loss account, together with the finance costs and income for the scheme. Actuarial gains and losses are recognised in full in the period in which they occur. Pension scheme assets are measured using market values for quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using the projected unit credit method, with an actuarial valuation being carried out each year at the balance sheet date. They are recognised in the statement of total recognised gains and losses. The retirement benefit deficit is recognised in the balance sheet.

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

1. Statement of accounting policies (continued)

Dividends

Dividends are accounted for when they are paid.

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. An impairment review is carried out every year and any necessary provision made.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

	Estimated life in years	Depreciation % per annum
Freehold land	N/A	Nil
Freehold buildings	30 - 50	2 -3.3
Plant and equipment	15	6.67
Leasehold improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 - 13	7.7 - 33.3
Transport	5	20

Investment Properties

Investment properties are revalued annually. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

Investment in subsidiaries

The investment in subsidiaries is stated at cost. The subsidiaries have not been consolidated on the basis that they are dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

2. Operating (loss)/profit

Operating (loss)/profit is stated after (crediting)/charging:

	Notes	**31 March 2011 £'000**	31 March 2010 £'000
Staff costs		**11,676**	12,065
Auditors' remuneration			
Audit Fees		**39**	35
Other services		**26**	3
Amortisation of goodwill		**54**	56
Directors' remuneration		**509**	406
Research and development of 'Savings Bank'		**-**	861
(Profit)/loss on disposal of fixed assets		**(3)**	5
Depreciation of tangible fixed assets		**824**	817

In 2009/10, Guernsey Post spent £861,000 on the research and development of a domestic Savings Bank. Following re-direction from The Guernsey Financial Services Commission in late 2009, the board took the decision to suspend all activity on the project and decided to write off the entire investment.

Average full time equivalent employee numbers for the period were as follows:

	31 March 2011	31 March 2010
Operational staff including postmen and women, post office counter staff and philatelic production staff	**201**	204
All other staff	**68**	69
Total	**269**	273

3. Interest receivable

	31 March 2011 £'000	31 March 2010 £'000
States Treasury	**182**	207

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

4. Taxation

The actual tax charge differs from he expected tax change commuted by applying the standard rate of Guernsey income tax of 20% as follows:

	Notes	**31 March 2011 £'000**	31 March 2010 £'000
Current year tax		**12**	182
Prior year tax		**(114)**	(41)
Deferred tax credit for the year	12	**(187)**	(68)
		(289)	73

Guernsey Post Limited as a Guernsey Utility Company regulated by the Office of Utility Regulation is subject to the standard rate of income tax of 20% on its regulated income and 0% on its non regulated income. The basis of assessment to Guernsey tax continues to be on actual current year basis.

The actual tax (credit)/charge differs from the expected tax charge computed by applying the standard rate of Guernsey income tax of 20% as follows:

	31 March 2011 £'000	31 March 2010 £'000
(Loss)/profit on ordinary activities before taxation	**(897)**	235
Tax at 20%	**(179)**	47
Effects of adjusting items:		
Timing differences	**14**	(10)
Sundry adjustment to prior years' tax	**30**	(41)
Disallowed expenses	**11**	188
Rate difference on current tax	**(147)**	(113)
Adjustments for pension costs	**169**	70
Current tax (credit)/charge	**(102)**	141
Deferred tax - pension deficit	**(170)**	(73)
Deferred tax - timing differences	**(17)**	5
Profit and loss taxation (credit)/charge	**(289)**	73

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

5. Dividends on equity shares

Amounts recognised as distribution to equity holders in the period.

	Notes	**31 March 2011 £'000**	31 March 2010 £'000
Final dividend for the year ended 31 March 2010 of 1.22p (31 March 2009 2.74p)		**273**	614

The board is not proposing a final dividend for the year ended 31 March 2011.

On the 12 July 2011, a written resolution was passed by the shareholders of the Company to revise the Memorandum and Articles of Association of the Company to reflect the new provisions of the Companies (Guernsey) Law, 2008 which permit dividends to be paid out of any reserve of the Company, subject to a solvency test.

As part of this resolution the shareholders approved, and on the 13 July 2011 the directors of the Company approved, under the revised Memorandum and Articles of Association, previous dividends totalling £887,000 paid to the Shareholders for the years ended 31 March 2009 and 31 March 2010.

Whilst the payment of these dividends had satisfied the requirements of the solvency test under the Companies (Guernsey) Law, 2008 it had not satisfied all the requirements contained within the Company's previous Memorandum and Articles of Association (dated 24 August 2001), which had been drafted with regard to The Companies (Guernsey) Laws, 1994 to 1996.

6. Intangible assets - Goodwill

	£'000
Cost	
At 1 April 2010	563
Write back of deferred consideration	(20)
At 31 March 2011	543
Amortisation	
At 1 April 2010	112
Charge for the year	54
At 31 March 2011	166
Net book value	
At 31 March 2010	451
At 31 March 2011	377

On 1 April 2008 the company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, for a cash consideration of £525,611 and a deferred cash consideration of £200,000. The fair value of the net assets acquired amounted to £162,431, giving rise to goodwill of £563,180. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company.

The sale and purchase agreement specified that the deferred cash consideration was payable in two equal instalments of £100,000 on 31 July 2009 and 31 July 2010. Payment was subject to meeting pre-determined adjusted profit targets in respect of the financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first instalment of £100,000 and agreed to provide in full for the second instalment of £100,000. On 27 September 2010 the board approved both the payment of £80,000 in respect of the second instalment and the write back of £20,000 against goodwill and deferred consideration.

The carrying value of the goodwill has been reviewed during the year and the directors have determined that no impairment has taken place.

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

7. Tangible fixed assets

	1 April 2010 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2011 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,583	14	-	**8,597**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	358	19	-	**377**
Furniture and fittings	229	20	-	**249**
Office equipment	1,452	54	(30)	**1,476**
Postal machinery	2,347	36	-	**2,383**
Transport	965	61	(32)	**994**
	19,101	204	(62)	**19,243**

	1 April 2010 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2011 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,245	176	-	**1,421**
Plant and equipment	1,003	255	-	**1,258**
Leasehold improvements	90	48	-	**138**
Furniture and fittings	104	20	-	**124**
Office equipment	1,133	109	(27)	**1,215**
Postal machinery	1,878	96	-	**1,974**
Transport	640	120	(32)	**728**
	6,093	824	(159)	**6,858**
Net book value	13,008	-	-	**12,385**

Freehold land with a value of £2,505,000 (2010: £2,505,000) is not depreciated.

8. Investment properties

	Market Value 31 March 2011 £'000	Market Value 31 March 2010 £'000
At 1 April 2010	**875**	875
Revaluation	**25**	-
At 31 March 2011	**900**	875

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2011 by Swoffers Ltd. Such properties are not depreciated.

9. Investment in subsidiaries

	31 March 2011 £'000	31 March 2010 £'000
Independent Delivery Solutions Limited	-	-
BATIF Bureau de Change Limited	-	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2010: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, which consists of 100 fully paid up £1 shares. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company. Guernsey Post Ltd pays the admininstration costs for this company.

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

10. Debtors

	31 March 2011 £'000	31 March 2010 £'000
Trade debtors	**5,678**	5,514
Less: Provision for bad debt	**(79)**	(86)
Other debtors	**41**	62
Prepayment and accrued income	**583**	449
Taxation recoverable	**173**	-
	6,396	5,939

11. Creditors

	31 March 2011 £'000	31 March 2010 £'000
Amounts falling due within one year		
Trade creditors	**5,262**	5,052
Other creditors	**1,747**	1,578
Accruals and deferred income	**761**	398
Taxation payable	**-**	102
	7,770	7,130

12. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances	Deferred consideration (note 6)	Sub Total	Deferred taxation - Pension deficit / surplus	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2010	(53)	100	**47**	(1,869)	**(1,822)**
Charged to statement of total recognised gains and losses	-	-	-	480	**480**
Write back of deferred consideration	-	(20)	**(20)**	-	**(20)**
Payment of deferred consideration	-	(80)	**(80)**	-	**(80)**
Credit to profit and loss account	(17)	-	**(17)**	(170)	**(187)**
At 31 March 2011	(70)	-	**(70)**	(1,559)	**(1,629)**

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. As a Guernsey Utility Company regulated by the Office of Utility Regulation, Guernsey Post Limited is subject to tax at 20% on its regulated income and 0% on its non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £1.559m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

13. Share capital

	31 March 2011 £'000	31 March 2010 £'000
Authorised		
40,000 ordinary shares of £1 each	**40,000**	40,000
Allotted, called-up and fully-paid		
22,386,000 ordinary shares of £1 each	**22,386**	22,386

100% of the shares of the Company are owned beneficially by the States of Guernsey.

14. Reserves

	31 March 2011 £'000	31 March 2010 £'000
Profit and loss account		
Opening reserves at 1 April 2010	**(2,507)**	(70)
Retained (loss)/profit for the year	**(608)**	162
Actuarial profit/(loss) for the year, net of movement in deferred tax	**1,922**	(1,985)
Dividends paid	**(273)**	(614)
As at 31 March 2011	**(1,466)**	(2,507)

Revaluation reserve	31 March 2011 £'000	31 March 2010 £'000
Opening reserves at 1 April 2010	**(40)**	(40)
Unrealised Gain on revaluation of investment properties	**25**	-
As at 31 March 2011	**(15)**	(40)

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

15. Reconciliation of movement in shareholders' funds

	31 March 2011	31 March 2010
	£'000	£'000
(Loss)/profit for the financial year	**(608)**	162
Actuarial gain/(loss) recognised in the pension scheme	**2,402**	(2,481)
Movement on deferred tax attributable to actuarial (gain)/loss	**(480)**	496
Unrealised gain on revaluation of investment properties	**25**	-
Dividend paid on equity shares	**(273)**	(614)
Net addition to/(reduction) in shareholders' funds	**1,066**	(2,437)
Opening shareholders' funds	**19,839**	22,276
Closing shareholders' funds	**20,905**	19,839

16. Reconciliation of operating (loss)/profit to net cash inflow/(outflow) from operating activities

	31 March 2011	31 March 2010
	£'000	£'000
Operating (loss)/profit	**(918)**	260
Depreciation charges	**824**	817
Amortisation	**54**	56
Net pension scheme service costs	**615**	79
Decrease/(increase) in stock	**46**	(64)
Increase in debtors	**(284)**	(942)
(Profit)/Loss on disposal of fixed assets	**(3)**	5
Increase/(decrease) in creditors	**742**	(5,040)
Net cash inflow/(outflow) from operating activities	**1,076**	(4,829)

Reconciliation of net cash inflow to movement in net funds

	31 March 2011	31 March 2010
	£'000	£'000
Increase/(decrease) in cash balances	**604**	(6,461)
Net funds at 1 April 2010	**13,959**	20,420
Net funds at 31 March 2011	**14,563**	13,959

17. Pension fund

"Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the ultimate liability to pay out any pension when it is realised lies also with the States should the Company be unable to meet its funding commitments.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after.
For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2011 by Mrs D Simon, Fellow of the Institute of Actuaries.

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

17. Pension fund - continued

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The amounts recognised in the Balance Sheet are as follows

	31 March 2011	31 March 2010
	£'000	£'000
Fair value of Fund Assets	**29,101**	25,126
Present value of funded obligations	**(36,895)**	(34,476)
Deficit in scheme	**(7,794)**	(9,350)
Related deferred tax asset	**1,559**	1,869
Net pension liability	**(6,235)**	(7,481)

Amounts in the Balance Sheet

Assets	**-**	-
Liabilities	**(6,235)**	(7,481)
Net pension liability	**(6,235)**	(7,481)

The amounts recognised in the Profit and Loss account are as follows:

	31 March 2011	31 March 2010
	£'000	£'000
Current service cost	**1,792**	1,148
Interest on obligation	**1,882**	1,515
Expected return on Fund assets	**(1,651)**	(1,225)
Expenses recognised in the Profit and Loss	**2,023**	1,438
Actual return on Fund assets	**2,903**	(5,351)

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

17. Pension fund - continued

	31 March 2011 £'000	31 March 2010 £'000
Opening defined benefit obligation	**34,476**	25,115
Service cost	**1,792**	1,148
Interest cost	**1,882**	1,514
Contribution by members	**509**	466
Actuarial Losses	**(1,150)**	6,607
Benefits paid	**(615)**	(374)
Closing defined benefit obligation	**36,894**	34,476

17. Pension fund - continued

Changes in the fair value of Fund assets are as follows:

	31 March 2011	31 March 2010
	£'000	£'000
Opening fair value of Fund assets	25,126	18,615
Expected return	1,651	1,225
Actuarial Gains	1,252	4,126
Contributions by employer	1,178	1,069
Contributions by member	509	465
Benefits paid	(615)	(374)
Closing fair value of Fund assets	29,101	25,126

Analysis of amounts recognised in statement of total recognised gains and losses	31 March 2011	31 March 2010
	£	£
Total Actuarial Gains/(Losses)	2,402	(2,481)
Total Gains/(Losses) in statement of total recognised gains and losses	2,402	(2,481)
Cumulative amount of losses recognised in statement of total recognised gains and losses	(3,793)	(6,375)

Guernsey Post expects to contribute £1,149,278 to the Fund from 1 April 2011 to 31 March 2012.

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	31 March 2011	31 March 2010
	%	%
Equities	63	60
Gilts	4	12
Corporate Bonds	14	15
Other Assets	13	11
Property	6	2

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages (where applicable)) are as follows:

	31 March 2011	31 March 2010
	% pa	% pa
Discount rate	5.5	5.5
Expected return on Fund assets at 31March (for following year)	6.4	6.5
Rate of increase in pensionable salaries	5.05	5.15
Rate of increase in deferred pensions	3.8	3.9
Rate of increase in pensions in payment	3.8	3.9

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

17. Pension fund - continued

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements.
The assumptions are that a member aged 65 will live on average until age 86 if they are male and until age 88 if female.
For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 89 if female.

Description of the basis used to determine the expected rate of return on the assets

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Amounts for the current and previous are as follows:

	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	36,895	34,476	25,115	19,490	22,882
Fund Assets	29,101	25,126	18,615	23,285	22,213
(Deficit)/surplus	(7,793)	(9,350)	(6,500)	3,795	(669)
Experience Gains/(Losses) on Fund assets	1,252	4,126	(7,027)	(1,712)	(571)
Experience Gains/(Losses) Fund liabilities	312	1,335	(658)	831	1,530

The Fund assets for the years ended 31 March 2007 have not been restated to bid value (i.e. they are mid market value).

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

18. Financial commitments

Capital commitments are as follows:

	31 March 2011 **£'000**	31 March 2010 £'000
Freehold buildings	**-**	10
Leasehold improvements	**-**	19
Fixtures & fittings	**34**	-
Postal Equipment	**16**	-
	50	29

Annual commitments under non-cancellable operating leases are as follows:

	31 March 2011 **Land and buildings** **£'000**	31 March 2010 Land and buildings £'000
Expiry date		
- within 1 year	**10**	10
- between two and five years	**-**	-
- after five years	**71**	71
	81	81

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

Notes to the Financial Statements (continued)

(Year ended 31 March 2011)

19. Statement of control

The Company is wholly owned and ultimately controlled by the States of Guernsey.

20. Related party transactions

S Hannon, a Non-Executive Director, is also a director of Postal & Logistics Consulting Worldwide Limited (PLCWW). Guernsey Post received consultancy and management services from PLCWW during the year, transacted on an arm's length basis. The charges incurred by the Company payable to PLCWW during the year ended 31 March 2011 were £3,361 (2010: £82,750). The balance outstanding at 31 March 2011 was £nil (2010: £nil).

Dame M Perkins who was a Non-Executive Director during the year, is also a director of Specsavers Optical Group Limited (SOGL). Guernsey Post received income from SOGL during the year for postal services, transacted on an arm's length basis. The income received by the Company from SOGL during the year ended 31 March 2011 was £166,825 (2010: £160,730). The balance outstanding at 31 March 2011 was £24,778 (2010: £16,072).

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2011 amount to 1.1% of total turnover (2010: 1.2%). The total value of purchases for the year amounted to 1.3% of total expenses (2010: 1.2%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2011 the balance held was £13,425,747 (2010: £12,842,783).

GUERNSEY POST

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